

## **IDAHO FORECAST DESCRIPTION**

### **The Forecast Period is the Third Quarter of 2010 through the Fourth Quarter of 2014**

The outlook for Idaho's economy has changed little since October 2010. Namely, after suffering a weak year in 2010, the economy should take small steps toward a recovery in 2011. Growth should accelerate after that year, but it is not expected to gallop. Idaho nonfarm employment shrank 1.3% in 2010. It is forecast to grow 1.0% this year. It is then expected to grow about 2.7% through 2014. At that pace, it finally clears its 2007 peak by about 2,600 jobs in 2014.

Once it is under way, the state's employment recovery should be balanced. Leading the charge will be the services and trade sectors. Their return to growth is especially important because these sectors combined are the largest share of the state's economy. Services employment is expected to grow about 2.0% this year followed by about 3.0% annual growth through 2014. Trade employment will grow more slowly, about 2.4% in each year of the forecast. The combined services and trade sectors are expected to make a disproportionately positive impact on employment. Although they account for about two-thirds of existing nonfarm jobs, they will account for over 80% of the jobs created over the forecast period.

Goods-producing employment is anticipated to be a mixed bag. Manufacturing employment is forecast to expand in every year beginning with 2011. Over the next few years it will add nearly 7,000 jobs. While this is a welcome change from recent losses, it will fall short of its 2007 peak of 68,100 jobs. It should be noted that the state's high-tech sector's employment is projected to remain stable over the next few years, which is a vast improvement from the declines it experienced through the first decade of the new millennium. Mining should also advance over the forecast period. Actually, it has already started. It added about 100 jobs in 2010. There should be about 2,700 mining jobs in 2014, which is much more than the recent low of 2,200 jobs in 2009.

Two exceptions worth noting are housing and construction. In the previous forecast, it was predicted that Idaho housing starts would begin recovering in the second half of 2010. Specifically, they would bounce from 5,700 annual units in the second quarter to 6,900 annual units in the third quarter. New data show this did not occur. Housing starts actually dropped to 3,600 annual units in the third quarter—their lowest level since the first quarter of 1989. Because of this decline, the forecast for housing starts has been lowered from the previous forecast. The construction employment forecast has also been reduced. Instead of averaging 3.3% annual growth through 2014, construction employment grows 2.9% per year. As a result, there are 1,100 fewer jobs in 2014 in the current forecast compared to the previous one.

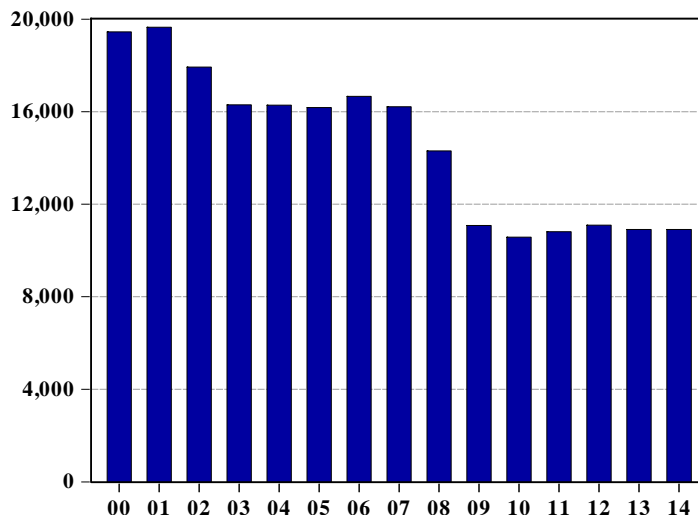
Idaho nominal personal income also expands gradually over the forecast period. Last year's employment decline held personal income growth to an estimated 3.0%. Recovering employment should help income growth accelerate over the forecast period. Specifically, it increases 3.1% in 2011, 4.4% in 2012, 5.1% in 2013, and 6.1% in 2014. Idaho real personal income grows 1.7% in 2011, 2.7% in 2012, 3.3% in 2013, and 4.0% in 2014 in this forecast.

## SELECTED IDAHO ECONOMIC INDICATORS

**Computer and Electronics:** Idaho computer and electronics employment has been whipsawed over the last two decades. During the 1990s, this sector was one of Idaho's strongest and most consistent job engines. Over the period from 1991 to 2000, this sector's employment increased an average of 7% annually, which far exceeded the 4% pace for total nonfarm employment. Thanks to this growth, the sector became the Gem State's largest manufacturing employer in 1997 and in 2000 it accounted for 3.5% of the state's total job base. Employment peaked at 19,700 jobs in 2001. It was knocked off this perch by the high-tech implosion; employment fell by 9% in both 2002 and 2003. But these declines were just the start. This sector shed jobs in six of the next seven years,

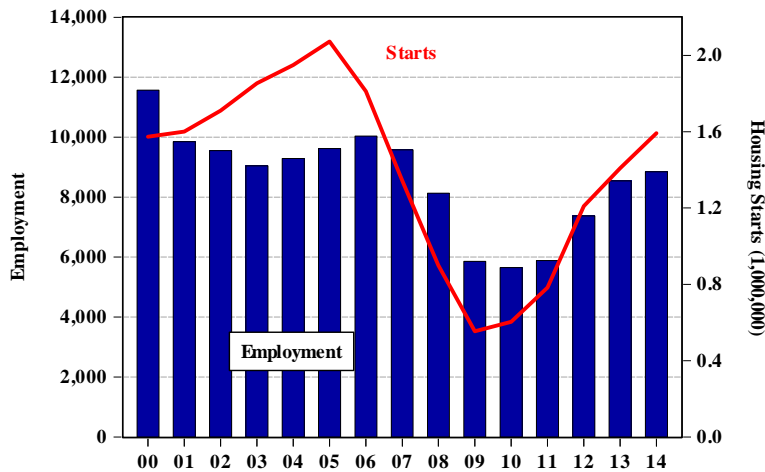
with the most severe declines coming in 2008 (11.8%) and 2009 (22.5%). After the dust had settled there were about as many jobs at the end of 2009 as there were in 1991. It returned the title of the state's largest manufacturing employer to the food processing sector in 2008. And its share of total employment had shrunk from a peak of 3.5% at the decade's start to 1.8% in 2010. But it appears the worst is behind this sector. There are several reasons for guarded optimism about this sector's outlook. First, Micron Technology is once again in the black. The company has also made moves to diversify, which should make it less vulnerable to future downturns. For example, the company beefed up its product line by acquiring Numonyx. This Swiss company produces NOR memory which is used in the fast growing mobile devices markets. The company has also diversified its business by leveraging its decades of manufacturing expertise in developing new solar power technology with Australian-based Origin Energy. The new company, Transform Solar, already employs 70 workers and plans to add another 50. Other high-tech companies are also making positive changes. Hewlett-Packard announced it is lifting its freeze on raises. ON Semiconductor employs 630 workers in Pocatello. It recently announced it was undertaking an \$11 million expansion that should bring more jobs to the Gateway City. Idaho is also participating in the green energy movement. Inovus Solar is a Boise-based renewable outdoor lighting company. It is a pioneer in the manufacturing of LED (light-emitting diode) lighting. The Ridgeline Energy and BP Wind Energy Goshen North Wind Farm is completed. Its 83 400-foot turbines are producing enough electricity for 37,000 homes. Exergy Development Group, GE Energy Financial Services, and Reunion Power are partners in the \$500-million Idaho Winds Project. The project is expected to employ 175 temporary construction employees and permanent workers. After several years of declines, Idaho computer and electronics sector employment is forecast to hover near 11,000 jobs through 2014.

**Idaho Computer and Electronic Products Employment**



**Logging and Wood Products:** Gem State logging and wood products employment is forecast to expand beginning this year, after suffering several years of decline. Fueling this turnaround is the expected demand for wood products from the recovering national housing sector. Housing starts are expected to increase nearly 30% this year, 55% next year, 16.4% in 2013, and 13.0% in 2014. In order to meet this

### Idaho Wood Product Employment and U.S. Housing Starts

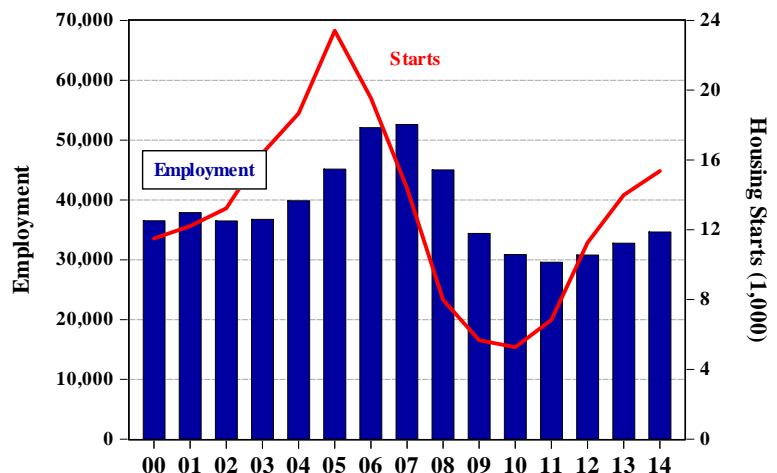


recovering demand, wood production is projected to increase 3.7% in 2011, 20.0% in 2012, 9.6% in 2013, and 3.0% in 2014. This anticipated strong demand will act as a countervailing force to supply factors that have exerted relentless downward pressures on logging and wood products employment. They include the dwindling supply of logs from national forests. According to the U.S. Forest Service, the timber harvest from Idaho national forests dropped from 172.0 million board feet in 1999 to 121.2 million board feet in 2008. The June 2008 edition of *Random Lengths Yardstick* reported there are about half as many mills in

the inland region as there were 20 years ago, and the inland region's share of North American (U.S. and Canada) production has dwindled from 18% to 8%. Despite the industry's downsizing, excess capacity remains a challenge. It is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. Idaho lumber and wood products employment hit a trough of 5,700 jobs in 2010, which was about 40% below its 2006 peak of 10,000 jobs. It is projected to grow in each year of the forecast, but it is not fast enough to top its previous peak.

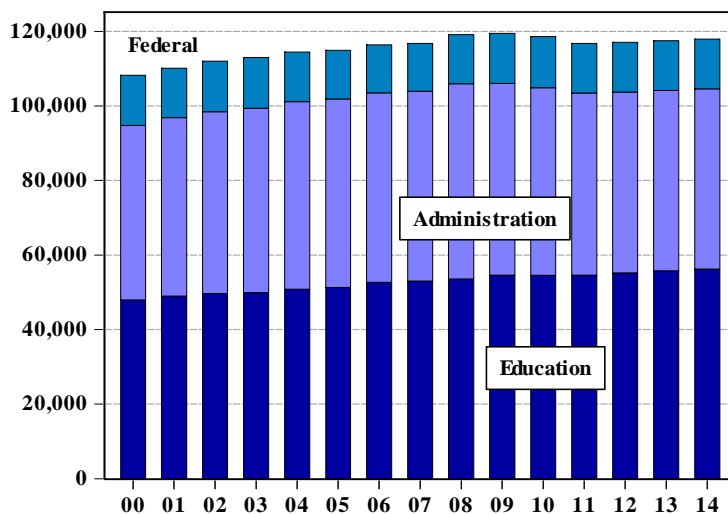
**Construction:** The construction sector is expected to be a latecomer to the state's economic recovery. While manufacturing and mining are forecast to experience employment gains this year, construction is forecast to shed another 1,300 jobs in 2011. This year marks the fourth straight year its employment has dropped. These declines follow five consecutive years of strong growth. A look back at over the last few years provides a perspective of how high employment has grown and how much it has fallen. Housing starts heated up from 11,500 units in 2000 to a peak of 23,400 units in 2005. Construction employment had a longer fuse, but exploded from 36,700 jobs in 2003 to its peak of 52,100 jobs in 2007—an annual increase of 9.4%. At its peak, construction accounted for one of every twelve Idaho nonfarm jobs, up from one of every sixteen jobs in 2002. The construction sector's decline has been steeper than its climb. It gained about 16,100 jobs in five years from its trough to peak, but lost more than 21,400 jobs just three years after the peak. It is expected to shrink another 1,300 jobs in 2011. After this year, construction employment is projected to gradually expand to 34,600 jobs by 2014. Again, some perspective is in order. Despite its

### Idaho Construction Employment and Housing Starts



anticipated growth, construction employment comes nowhere close to regaining its previous peak. Instead, there are about as many jobs in 2014 as there were in 2009. Alternately, construction employment accounts for one out of every twenty jobs in 2014. The reason for this subdued performance is the housing sector recovery starts from an extremely low level. Idaho housing starts are forecast to bottom out at 5,300 units in 2010—its lowest annual level since 1989. Over the forecast period, housing starts will claw back to 15,400 units in 2014, which is slightly above where they were in 2007. It should be noted this outlook is slightly weaker than the one that presented in the previous forecast. It is lower because the housing recovery starts later and is not as strong as in the previous forecast. In October 2010, it was forecast housing starts would begin growing in the second half of 2010 and climb to 14,300 units by 2013. Recent data show that instead of rising in the third quarter of 2010, Idaho housing starts sank to 3,600 units, which were about 2,500 fewer units than was expected in October 2010. The third quarter's drop has both lowered the starting point and trajectory of the housing forecast. There are projected to be 14,000 units in 2013, or 300 fewer than projected earlier.

### Idaho Government Employment



**Government:** Slower population growth and tighter budgets caused Idaho state and local government employment to fall in 2010. And the negative impacts from these two factors are expected to linger long into the near future. State and local government employment is forecast to drop again in 2011 and remain flat in the forecast's remaining years. The positive correlation between population and government employment growth is well established. This relationship exists because growing populations put more demands on government services, such as public schools and police protection. In Idaho, the largest swings in population come from net migration. For example, the state's population increased 2.6% in

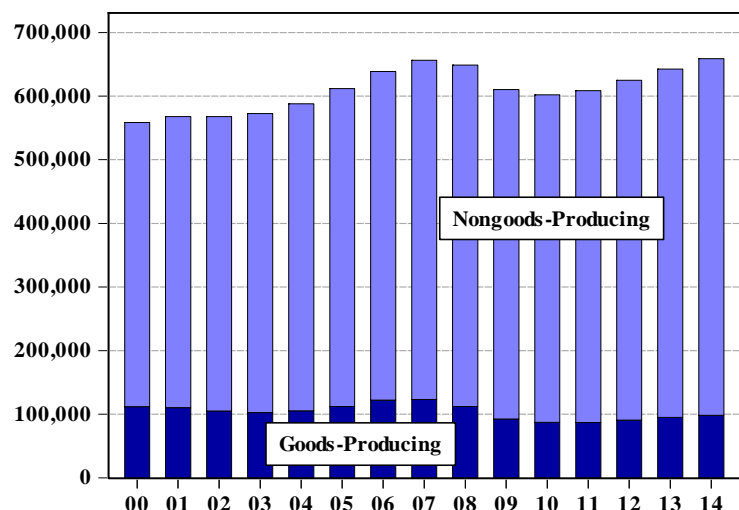
2006—its strongest annual gain for the decade. Nearly two-thirds of the increase came from net migration. The remainder was the amount of natural population growth, the amount of births over deaths. It is estimated the state's population grew just 1.3% in 2010. In this slow-growth year, migration accounted for just about a quarter of all new Idahoans and natural population made up the remainder. Migration tapered off last year for two primary reasons. The first is the widespread economic downturn. One reason people move is to seek better opportunities. In the past, Idaho's strong economy was a draw for newcomers. However, the Gem State's economy was not spared the impact from the Great Recession, so it was less attractive to job seekers than in the past. Second, the housing crises prevented homeowners from moving because they could not sell their houses, even if jobs were available elsewhere. But weaker population growth was not the only reason for last year's drop in state and local government employment. The drop also reflected the impact of falling government revenues. For example, the state's General Fund revenues plunged 15.2% in FY 2009 and by another 8.2% in FY 2010. The pain from weak collections extends beyond state government because Idaho cities and counties participate in revenue sharing from the state sales tax. While there has been plenty of fiscal pain to go around, its impact was not uniform. Hardest hit was the noneducation sector whose job base shrank about 2% for the second year in a row in 2010. Education employment declined just 0.1%. Over

the forecast period, education employment is expected to fare better than noneducation employment. Specifically, education employment should gain about 1,700 jobs by 2014, while the noneducation sector's payroll is forecast to shed another 2,000 jobs. Thanks to the needs for the U.S. census, federal employment in Idaho actually grew last year by 2.1%. Hiring for this once-a-decade project bulged to a peak of 2,600 jobs in May 2010, which pushed total federal government employment in Idaho above 16,000 jobs. With the census now completed, federal employment is expected to have dropped to 13,500 jobs by the end of 2010. It should remain near this level over the forecast period.

**Other Goods-Producing Sectors:** Most of the state's other manufacturing sectors should see their employment start expanding again over the next two years. Food processing is the Gem State's largest manufacturing employer. This cornerstone industry shed about 450 jobs over the last two years. However, its job count is expected to grow in every year of the forecast. Its recovery will be slow at first, with a gain of 140 jobs in 2011. However, it should shift into higher gear after that year, growing by about 400 jobs in both 2012 and 2013 and by 300 jobs in 2014. Machinery employment took big hits in both 2009 and 2010. It is forecast to start expanding again this year, but it is not expected to regain its previous peak. Specifically, after four years of growth, there is expected to be about 2,600 jobs in this sector, or about 500 fewer jobs than in 2008. Instead of falling in 2010, Idaho metal fabrication employment was flat. It is forecast to expand faster than the machinery sector, so that by 2014 its employment is 5,300 jobs—or about 600 more jobs than in 2008. Not all sectors will expand, however. The ebb and flow of the economy should leave other nondurable manufacturing employment in 2014 about where it was in 2008. The printing sector is expected to continue shedding jobs over the next few years, so that by 2014 it has over 600 fewer jobs than in 2008. Chemical employment is also slated to decline, but its drop will not be as steep as the printing one. It will lose about 200 jobs over the same period. Mining employment got a head start on most sectors by increasing 4.0% in 2010. It is scheduled to continue posting consistent gains through 2014, so it tops 2,700 jobs—which is about 100 more jobs than in 2008.

**Services and Trade:** After suffering declines in 2009 and 2010, the state's largest private employment sector, nongoods, is expected to be one of Idaho's growth engines over the forecast period. This sector's return to growth is especially important because it is the largest private employer in the state. It can be divided into its services and trade categories. Combined, these two categories accounted for two-thirds of the Idaho's total nonfarm payroll in 2010. The services category consists of information services; financial activities; transportation, warehousing, and utilities; professional and business services; education and health services; leisure and hospitality services; and other services. This category recently received some much-welcomed good news. After sitting idle since early 2010, Dell Computer's former Twin Falls call center has a new resident. C3 is a Miami-based company that could bring up to 1,200 jobs to the site. Convergys is in the process of filling 200 full- and part-time positions at its Pocatello call center. In late October, Allstate Insurance Company announced

**Idaho Nonfarm Employment**



it was building a \$22 million customer information center in the Pocatello-Chubbuck area. It is expected to be completed in about a year and will employ 500 to 600 workers. In Lewiston, Regence Blue Shield is filling about 45 positions. The hiring will restore about half the jobs lost during the recession. Unfortunately, not all the recent news has been positive. For example, Supervalu (formerly Albertsons) has laid off 60 people at its Boise administrative offices. However, on net, the gains should offset the losses. Services employment is expected to advance 2.3% this year, 3.2% next year and in 2013, and 3.0% in 2014. The trade category is split between its retail and wholesale components. The former is the larger of the two, with almost a 75% share of total trade employment. Like the services sector, the trade sector fell on hard times recently. In fact, it began losing jobs one year before the services sector. From its peak in 2007 to 2010, this sector has shed over 10,500 jobs, or 9.5% of its employment base. These declines are not expected to continue. Trade employment is forecast to increase 1.5% in 2011, 2.4% in 2012, 2.7% in 2013, and 2.9% in 2014. Retail trade is expected to grow slightly faster than wholesale trade over this period. The combined services and trade sectors are expected to make a disproportionately positive impact on employment. Although they account for about two-thirds of existing nonfarm jobs, they will account for over 80% of the jobs created over the forecast period.